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UNCLAS SECTION 01 OF 02 SANAA 003002

SIPDIS

STATE FOR INL AND NEA/ARP HEFFERNAN AND KEARY  
JUSTICE FOR OIA AND AFMLS  
TREASURY FOR FINCEN

SENSITIVE

E.O. 12958: N/A

TAGS: [EFIN](#) [PTER](#) [SNAR](#) [KCRM](#) [KSEP](#) [YM](#) [TERFIN](#)

SUBJECT: YEMEN 2003-2004 INCSR REPORT

REF A) STATE 328024

1. (SBU) EMBASSY SANAA SUBMITS ITS UPDATE FOR THE 2003-2004 INTERNATIONAL NARCOTICS CONTROL STRATEGY REPORT (INCSR) AT PARA TWO. COMMENT: WHILE THE ROYG MUST IMPROVE ITS ENFORCEMENT OF FINANCIAL CRIMES, THE PASSAGE OF ANTI-MONEY LAUNDERING LEGISLATION REPRESENTS A SIGNIFICANT STEP FORWARD IN MEETING INTERNATIONAL BANKING STANDARDS. END COMMENT.

2. (U) Begin Text:

The extent of money laundering in Yemen is not known. Yemen's Parliament passed anti-money laundering legislation in April 2003. However, the inexperience of the Central Bank of Yemen (CBY) in enforcing new money laundering legislation and the prevalence of hawala (informal money transfers) make Yemen vulnerable to money laundering. The CBY supervises Yemen's relatively small banking sector, which consists of 14 commercial banks, including three Islamic banks. Domestic banks account for approximately 60 percent of the total banking activities, while foreign banks cover the other 40 percent.

The 2003 legislation criminalizes money laundering for a wide range of crimes including narcotics offenses, kidnapping, embezzlement, bribery, fraud, tax evasion, illegal arms trading, and money theft, and imposes penalties of three to five years imprisonment. There is no specific legislation relating to counter-terrorist financing in Yemen, but terrorism is covered in various pieces of legislation that treat terrorism and its financing as serious crimes. The law requires banks, financial institutions, and precious commodity dealers to verify the identity of persons and entities that want to open accounts or deal with them, to keep records of transactions for up to ten years and to report suspicious transactions. In addition, the law requires that reports be submitted to an information-gathering unit within the CBY. The unit acts as the Financial Intelligence Unit (FIU), which in turn will report to the Anti-Money Laundering Committee (AMLC). The AMLC is composed of representatives from the Ministries of Finance, Justice, Interior, and Industry and Commerce, the CBY, and the Board of Banks is authorized to issue regulations and guidelines and provide training workshops related to combating money laundering efforts. Several training workshops have been conducted by the CBY in 2003 on the new legislation.

The law grants the AMLC the right to exchange information with foreign entities. The head of the committee can ask local judicial authorities to enforce foreign court verdicts based on reciprocity. Also, the law permits the extradition of criminals in accordance with international treaties or bilateral agreements. (Note: The Yemeni Constitution prohibits the extradition of Yemeni citizens. End note.) In April 2002, the CBY issued Circular 22008, informing banks and financial institutions that they must verify the legality of all proceeds deposited in or passing through the Yemeni banking system. The circular stipulates that financial institutions must positively identify the place of residence of all persons and businesses that establish relationships with them. The circular also requires that banks verify the identity of persons or entities that wish to transfer more than \$10,000 through banks at which they have no account. The same provision applies to beneficiaries of such transfers. Banks must also take every precaution when transactions appear suspicious, and report such activities to the CBY. The circular was distributed to the banks along with a copy of the Basel Committee's "Customer Due Diligence for Banks," concerning "Know Your Customer" procedures.

In response to UNSCR 1267/1390 and Yemen's Council of Ministers directives, CBY issued a number of circulars to all banks operating in Yemen directing them to freeze accounts of 144 persons, companies, and organizations, and to report any finding to CBY. As a result, one account was immediately frozen with a balance equal to \$33.

A LAW WAS PASSED IN 2001 GOVERNING CHARITABLE ORGANIZATIONS, ENTRUSTING THE MINISTRY OF PENSIONS AND SOCIAL AFFAIRS WITH OVERSEEING THEIR ACTIVITIES. THE LAW IMPOSES PENALTIES OF FINES AND/OR IMPRISONMENT ON ANY SOCIETY OR ITS MEMBERS FOR CARRYING OUT ACTIVITIES OR SPENDING FUNDS FOR OTHER THAN THE

STATED PURPOSE FOR WHICH THE SOCIETY WAS ESTABLISHED.

Yemen is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Yemen is a member of the Arab Convention for the Suppression of Terrorism.

The Government of Yemen is making progress in enforcing its domestic anti-money laundering program. However, international cooperation with criminal investigations is nascent. As of the writing of this report, the CBY is still organizing its enforcement mechanism; its effectiveness will demonstrate the ROYG's commitment to ending money laundering. As a next step, Yemen should also enact specific legislation with respect to the financing of terrorism and pass a law giving the ROYG executive authority to freeze assets of those they believe are involved in terrorism.

End Text.